

May 9, 2013

WATER/RSK/KOK/DLW/RHG**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****DIVISION OF WATER AND AUDITS
UTILITY AUDIT, FINANCE AND
COMPLIANCE BRANCH****RESOLUTION W-4947
May 9, 2013****R E S O L U T I O N****RESOLUTION W-4947. RESOLUTION GRANTING LITTLE BEAR
WATER COMPANY, INC., WATER DIVISION AUTHORITY TO
BORROW \$450,000, FROM FINANCIAL INSTITUTIONS AND TO
ENCUMBER ITS ASSETS IN CONNECTION WITH THE LOAN.****By Advice Letter No. 64 filed on January 7, 2013.**

SUMMARY

This Resolution grants Little Bear Water Company, Inc., Water Division (LBWC-WD) the authority requested in its Advice Letter (AL) 64.

LBWC-WD requests authority, pursuant to §§ 816 through 851 of the Public Utilities Code,¹ to:

1. Borrow \$450,000 from financial institutions;
2. Use the loan proceeds to finance water plant additions;
3. Be exempt from the Commission's Competitive Bidding Rule;²
4. Refinance short-term debt used to finance water plant additions; and
5. Encumber utility assets in connection with the loan.

BACKGROUND

LBWC-WD, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission. LBWC-WD provides service to 699 metered water customers in portions of Pine Canyon, located 3 miles southwest across the Salinas River from King City, Monterey County.

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

² In Decision (D.) 12-06-015, the Commission issued its Financing Rule which replaces its former Competitive Bidding Rule. The Commission no longer requires competitive bidding.

LBWC-WD's water system consists of wells, pumps, storage tanks, distribution mains, services, meters, fire hydrants, water treatment equipment, etc. Distribution mains are cast iron, polyvinyl chloride (PVC) or cement ranging in size from 1" to 12". There are three wells, approximately 40 to 70 feet deep and 125 hp motors, that are capable of producing 450, 600, and 1,200 gallons.

On November 9, 2012, by AL 63, LBWC-WD filed a general rate case (GRC) requesting a rate increase for test year 2013, of \$288,604 or 56.75% over revenues at present rates of \$508,591. AL 63 is currently being reviewed and evaluated.

A. Financing Request

LBWC-WD seeks authorization to borrow \$450,000 from financial institutions to fund certain plant additions. LBWC-WD is in the process of contacting financial institutions to seek a long-term loan of \$450,000. LBWC-WD will choose the financial institution that will provide the best terms to obtain the loan. LBWC-WD believes it can get a long-term loan for a period of ten years at an interest rate between 5% and 6% per year. LBWC-WD will execute and issue a promissory note and deed of trust to the financial institution that will best serve its financing requirements.

Additionally, LBWC-WD indicates that it may preliminarily finance part of its construction work with short-term debt and use some of the proceeds of the long-term debt requested herein to refinance the bridge short-term funding. The amount of short-term debt that LBWC-WD expects that it may use in the interim and refinance by the loan will not exceed \$450,000.

Since the proposed loan may be required to be secured by LBWC-WD's assets, LBWC-WD requests authority to encumber utility assets in connection with the loan.

B. Current Financing

The Commission has previously authorized LBWC-WD to enter into long-term borrowings. The most recent authorizations include the following:

1. In Resolution (Res.) W-4545, dated June 30, 2005, the Commission authorized LBWC-WD to borrow \$540,000 from the Steinbeck Credit Union to construct three reservoirs for its water system. LBWC did not avail or procure the loan under this authorization.
2. Instead, by Res. W-4621, dated October 19, 2006, the Commission granted LBWC-WD the authority to procure the \$540,000 loan authorized by Res. 4545

from Pinnacle Bank. On October, 2006, LBWC-WD executed the loan with Pinnacle Bank at an interest rate of 7.29% and a term of ten years. The Pinnacle Bank loan agreement required LBWC-WD's President to personally guarantee the loan.

3. In Res. W-4819, dated December 17, 2009, the Commission authorized the refinancing of LBWC-WD's Pinnacle Bank loan. On July 30, 2010, LBWC-WD secured a \$456,742 loan from JP Morgan Chase Bank, NA (Chase) at an interest rate of 6% and a term of ten years, and paid off the Pinnacle Bank loan. As of December 31, 2011, the outstanding balance of the Chase loan was \$371,367.

According to LBWC-WD, it does not have other long-term debts other than the Chase loan.

C. Construction Budget

LBWC-WD's proposed water plant construction, as shown in Schedule A to the filing, is summarized in the following table.

Table 1
2013 Water Plant Additions

<u>Item</u>	<u>Estimated Cost</u>
a) Installation of additional gate valves	\$ 49,000
b) Upgrade of SCADA program ³	63,000
c) Upgrade of reservoirs	6,000
d) Design and construction of new storage tanks	140,000
e) Design and installation of new booster station	84,000
f) Installation of new generator	29,000
g) Installation of online monitoring system for disinfection residual	<u>30,000</u>
h) Sub-total of estimated plant additions	\$401,000
i) Contingency	<u>49,000</u>
Total	<u>\$450,000</u>

³ Supervisory Control and Data Acquisition.

According to LBWC-WD, the plant additions are needed for the following reasons:

1. Installation of additional gate valves will improve the utility's abilities to perform routine and/or emergency repairs to its distribution system. Due to the cost of the program, other additions or improvements to the distribution system will be scheduled at a later period.
2. Upgrades that include intruder alerts, power failure alerts, zone pressure, and main control panel will improve the SCADA system.
3. The Department of Public Health (DPH) Sanitary Survey Report and Findings require that improvements be made to the utility's Main Storage Reservoirs, the Via Canada Storage Reservoir, and the Highland Hills Storage Reservoirs.
4. Construction of a steel bolted storage tank for the Upper Canyon Zone will support water demand requirements and fire protection flows for an area which does not have any fire protection capacity.
5. Installation of an auxiliary storage reservoir for Highland Hills #1 will put the utility in compliance with the state water work standards for daily demand and peak hourly demand. It will also improve fire protection capacity.
6. Installation of a new Upper Canyon booster station and auxiliary power source are upgrades to the system.
7. Online monitoring system for disinfection residual will put utility in compliance with the DPH's Ground Water Rule.

In its pending GRC, LBWC-WD requests inclusion of the new water plant additions in ratebase in year 2013. According to LBWC-WD, of the estimated \$408,433 of plant additions, it only included 50% or \$204,217 in rate base since additions are calculated on an average basis. LBWC-WD intends to recover the other \$204,217 through a rate base offset in year 2014.

There is a difference of \$7,433 between the \$408,433 of plant additions requested in the GRC and the \$401,000 construction budget indicated this financing request. In the pending GRC, LBWC-WD listed the reservoir upgrade at \$6,293, while in this filing, the upgrade was listed at \$6,000. In addition, the GRC includes \$7,140 of capitalized interest which was not included in this filing. LBWC-WD intends to fund the difference of \$7,400 with income generated from operations.

D. Financial Information

In its Income Statement for the year ending December 31, 2011, LBWC-WD reported that it generated total operating revenues of \$571,489, with a net income of \$33,881. LBWC-WD's Balance sheet, as of December 31, 2011, as reported, is summarized in the following table.

Table 2	
Balance Sheet as of December 31, 2011	
<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,186,647
Investments	180,000
Current Assets & Accrued Assets	199,925
Deferred Charges	<u>9,909</u>
Total Assets and Deferred Charges	<u>\$1,576,481</u>
 <u>Liabilities & Equity</u>	
Common Stock	\$ 31,500
Other Paid-in Capital	292,651
Retained Earnings	524,257
Long-Term Debt	376,616
Current & Accrued Liabilities	160,466
Deferred Credits	121,767
Net Contributions in Aid of Construction	<u>69,224</u>
Total Liabilities & Equity	<u>\$1,567,481</u>

LBWC-WD's last GRC became effective October 15, 2009, pursuant to Res. W-4736. The Commission authorized an increase of \$142,146 or 33.6% over revenues at the then present rates of \$423,654. The increase was estimated to provide a return on rate base of 12.6%. Subsequent to its GRC, LBWC-WD received additional increases summarized in the following table.

Table 3		
Additional Rate Increases		
<u>Type</u>	<u>% Increase</u>	<u>Particulars</u>
2010 Consumer Price Index (CPI)	1.5%	\$8,487, effective 5/25/11
2011 CPI	3.0%	\$17,229, effective 4/17/12
Interim Rate Increase, subject to refund	3.0%	\$15,258, effective 1/1/13

E. Cash Requirements Forecast

LBWC-WD's estimate of cash requirements for 2013 through 2015, shown as Exhibit H to the filing, is summarized in the following table.

Table 4
Cash Requirements Forecast for Years 2013 through 2015

<u>Components</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Funds for Construction	\$ 0	\$401,000	\$ 0	\$ 0	\$401,000
Long Term Debt Repayment	67,014	95,798	119,721	119,721	355,240
Contingency Costs	<u>0</u>	<u>49,000</u>	<u>0</u>	<u>0</u>	<u>49,000</u>
Total Cash Requirements	\$67,014	\$545,798	\$119,721	\$119,721	\$805,240
Less: Internal Cash Sources	<u>\$67,014</u>	<u>\$ 95,798</u>	<u>\$119,721</u>	<u>\$119,721</u>	<u>\$335,240</u>
Funds from Outside Sources	<u>\$ 0</u>	<u>\$450,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$450,000</u>

F. Capital Structure

LBWC-WD's capital ratios as of December 31, 2011, are presented below as recorded and adjusted to give pro forma effect to LBWC-WD's proposed transactions:

Table 5
Capital Structure

	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma 2015</u>	
Long-term debt	\$ 376,616	30.74%	\$178,078 ^(A)	\$ 554,694	29.86%
Common Stock	31,500	2.57%	-	31,500	1.70%
Paid In Capital	292,651	23.89%	-	292,651	15.75%
Retained Earnings	<u>524,257</u>	<u>42.80%</u>	<u>454,686^(B)</u>	<u>978,943</u>	<u>52.69%</u>
Total Capitalization	<u>\$1,225,024</u>	<u>100.00%</u>	<u>\$632,764</u>	<u>\$1,857,788</u>	<u>100.00%</u>

1. The issuance of the \$450,000 debt requested in this filing; projected long-term debt payment of \$41,014 in 2012, \$64,754 in 2013, \$80,683 in 2014, and \$85,471 in 2015.
2. Projected net earnings after interest expense of \$40,000 in 2012, \$124,712 in 2013, \$142,593 in 2014, and \$147,381 in 2015.⁴

⁴ LBWC-WD made the assumption in preparing the 2012 to 2015 Income Statement, Schedule E attached to AL 64, that the revenue and expenses requested in its pending GRC will be approved in full and the Commission will allow a rate base offset in 2014.

NOTICE AND PROTESTS

AL 64 was served on LBWC-WD's adjacent utilities pursuant to General Order (G.O.) 96-B, Water Industry Rule 4.1. Notice of AL 64 was made by publication in the Commission's Daily Calendar of January 9, 2013. No protests have been received.

DISCUSSION

As a public utility, LBWC-WD has the responsibility to maintain its quality of service and provide necessary improvements to its present water system. According to LBWC-WD, the plant additions will improve its abilities to perform routine and emergency repairs to its distribution system; upgrade its SCADA program; comply with the DPH's requirements for reservoirs and ground water; improve water demand and fire protection flow requirements; and comply with the State's work standards for daily and peak hourly demand.

Based on LBWC-WD's 4-year cash requirements forecast, it appears that outside funding will be needed to fund the water plant additions since LBWC-WD intends to use the funds from its treasury or income to pay off the current portion of long-term debt and to fund operations and any other capital projects that may become necessary.

LBWC-WD indicated in its filing that it may in the interim use short-term debt to finance some of its construction work that it intends to pay later with the proceeds of the \$450,000 long-term debt requested herein.

Section 817 provides that a public utility may issue stocks and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for certain purposes, including, but not limited to, the construction, completion, extension, or improvement of its facilities and the improvement or maintenance of its services and the discharge or lawful refunding of its obligations.

In D.12-06-015, the Commission issued its Financing Rule which replaces the Competitive Bidding Rule authorized in Res. F-616. The Commission no longer requires competitive bidding and instead, among other things, requires utilities to procure their long-term debt to achieve the lowest long-term cost of capital for ratepayers. LBWC-WD indicates that it will choose the financial institution that will provide the best terms and that will best serve its financing requirements.

LBWC-WD's proposed plant additions and the refunding of any short-term debt used to facilitate those improvements fall within the scope of § 817 and would be a proper use of funds under § 817. While using the proceeds from the loan to fund the above plant additions and to refund any short-term debt used to temporarily finance them are

proper purposes pursuant to § 817, we will not make a finding in this Resolution of the reasonableness of the construction budget, the resulting cost of debt nor the short-term debt costs if any is used to finance the construction for ratemaking purposes. Those issues are normally addressed in a cost of capital assessment or rate case proceeding.

While LBWC-WD's proposed transactions do not appear to materially change LBWC-WD's capital structure to the detriment of ratepayers, capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this Resolution of the reasonableness of the projected capital ratios for ratemaking purposes.

Section 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Section 818 requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

Section 823(d) states that a utility may not refund a note payable, at a period of not more than 12 months after the date of issuance of such note, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

As set forth herein, LBWC-WD's proposed loan would be for the purpose of constructing and improving its water system and refunding any short-term debt used for the construction, which fall within the scope of purposes in § 817. Moreover, LBWC-WD's proposed borrowing and the money, property, or labor to be procured or paid for with the proceeds of the debt authorized by this Resolution is reasonably required for the purposes specified in this Resolution, since these improvements will benefit ratepayers over many years. LBWC-WD's proposed project is not reasonably chargeable to expenses or income.

Section 851 requires Commission authorization before a utility may "lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its... plant, system or other property necessary or useful in the performance of its duties to the public..." Section 851 permits the encumbrance of utility assets when such encumbrance serves to secure authorized debt and the Commission frequently authorizes such encumbrance where, as here, it is not adverse to the public interest.

Therefore, we will authorize LBWC-WD to obtain a loan in the amount of \$450,000 to fund the system improvements and additions discussed herein, to refund short-term debt used for those system improvements and additions, and to encumber its assets in connection with the loan.

Consistent with § 824, LBWC-WD should maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt were only used for the purposes specified herein. LBWC-WD must keep and maintain copies of the loan agreement and related loan documents and must file with the Division of Water and Audits' (DWA) Utility Audit, Finance and Compliance Branch (UAFCB) a copy of the documents within 15 days of execution.

In D.12-06-015, the Commission, among other things, also requires utilities with \$25 million or more of annual California operating revenue to use their best efforts to encourage, assist and recruit women-, minority- and Disabled Veteran-Owned Business Enterprises (WMDVBEs) as lead underwriter, book runner, co-manager, or in other roles in the issuance of their debt securities.⁵ LBWC-WD has less than \$25 million of operating revenue and therefore is exempt from this requirement. While LBWC-WD is exempt from that requirement, the Commission encourages all investor-owned utilities to actively participate in the Commission's Supplier Diversity Program as set forth in G.O. 156, whether mandated or otherwise, and provide financial opportunities to WMDVBEs, as this is vital to the economic recovery and stability of our communities and our State.

ENVIRONMENTAL IMPACT

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or other regulations. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.⁶ Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment are not "projects" subject to CEQA.⁷

This Resolution does not authorize any capital expenditures or construction projects. Construction projects which LBWC-WD intends to finance via this filing should undergo CEQA review as early as feasible in the planning process, as required by

⁵ See G.O. 156 for definitions of Women, Minority and Disabled Veteran-Owned Business Enterprises.

⁶ Public Resources Code Section 21090(b) (8).

⁷ CEQA Guidelines Section 15378(b) (4).

CEQA Guidelines Section 15004(b). To the extent capital expenditures are financed with the proceeds of the loan issued pursuant to this Resolution, ongoing projects have already been subject to any necessary CEQA review undertaken prior to LBWC-WD receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

GENERAL ORDER 24-C

In D.12-06-015, the Commission revised G.O. 24-B by replacing it with G.O. 24-C. Revisions to G.O. 24-B include: 1) the filing of a G.O. 24-C report on a quarterly then semi-annual instead of a monthly basis; 2) revisions to the type of information provided in such reports; and 3) the elimination of the requirement that a utility maintain a separate bank account to record securities proceeds except as required by the Commission.⁸

FEES

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b). The fee for this financing authority as required by § 1904(b) is \$900.⁹ LBWC-WD must issue a check payable to the California Public Utilities Commission and remit the payment to the Commission's Fiscal Office before it can enter into the loan discussed in this Resolution.

⁸ See D.12-06-015, Attachment B. For the first year after authorization of the new G.O., the G.O. 24-C report will be filed quarterly. For the second year after authorization of the new G.O. and for every year thereafter, the G.O. 24-C report will be filed semi-annually.

⁹ The fee is assessed on \$450,000 of authorized borrowing as follows: \$2 times (\$450,000/\$1,000) equals \$900.

COMMENTS

This is an uncontested matter in which the Resolution grants the relief requested. Accordingly, pursuant to § 311(g) (2) and the Commission's Rules of Practice and Procedure, Rule 14.6(c), the otherwise applicable 30-day period for public review and comment is waived.

FINDINGS

1. LBWC-WD, a California corporation, is a Class C water utility subject to the jurisdiction of this Commission.
2. LBWC-WD is responsible for maintaining its quality of service and providing necessary improvements to its water system.
3. As shown in its cash requirements forecast, LBWC-WD needs approximately \$450,000 in funding for its water plant additions construction project as described more fully above.
4. The proposed borrowing is for proper purposes.
5. LBWC-WD must comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with this filing.
6. Given the amount of the loan that will be procured from financial institutions, LBWC-WD is exempt from Item 3 in Attachment A of the Financing Rule.
7. The Commission has routinely required utilities to maintain records to (i) identify the specific long-term debt issued, and (ii) demonstrate that the proceeds from such debt have been used only for authorized purposes and reaffirms that requirement here.
8. Notice of the filing appeared on the Commission's Daily Calendar on January 9, 2013. No protests have been received.
9. The fee for this financing authority as required by § 1904(b) is \$900.

CONCLUSIONS OF LAW

1. LBWC-WD's proposed plant construction costs are not reasonably chargeable to expenses or income.

2. LBWC-WD's proposed loan to finance its system improvements and additions is for proper purposes.
3. It is not adverse to the public interest to authorize LBWC-WD to enter into a loan agreement with financial institutions for \$450,000 to finance the construction and refund short-term debt used for construction as discussed herein.
4. It is not adverse to the public interest to allow LBWC-WD to encumber its assets to secure the proposed loan.
5. LBWC-WD should be authorized to execute a loan agreement and encumber its property to secure the debt authorized herein so long as the debt is to be used solely for the purposes specified in Table 1 of this Resolution.
6. The loan authorization herein is not a finding of the reasonableness of LBWC-WD's proposed construction or expenditures, the resulting capital structure, or the cost of money, neither does it approve of matters subject to review in a general rate case or other proceedings.
7. This Resolution does not authorize any capital expenditures or construction projects. Construction projects which LBWC-WD intends to finance via this filing should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b).
8. LBWC-WD's proposed loan is exempt from Item 3 of the Commission's Financing Rule.
9. It is LBWC-WD's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken using the debt authorized herein.
10. Consistent with § 824, LBWC-WD should maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized herein.

THEREFORE, IT IS ORDERED that:

1. Little Bear Water Company, Inc.-Water Division is authorized to borrow \$450,000 from financial institutions upon terms and conditions substantially consistent with those set forth or contemplated in Advice Letter 64 and schedules attached thereto; to encumber utility assets to secure the loan; and to use the loan proceeds for the capital improvements described in the body of this order or to repay any short-term debt used to temporarily finance those improvements.
2. Little Bear Water Company, Inc.-Water Division shall file with the Division of Water and Audits' Utility Audit, Finance and Compliance Branch copies of the loan agreement and loan related documents within 15 days of execution.
3. Little Bear Water Company, Inc.-Water Division shall not use the proceeds authorized by this Resolution to begin the construction of capital projects until Little Bear Water Company, Inc.-Water Division has obtained construction permits and any required environmental review under the California Environmental Quality Act.
4. Little Bear Water Company, Inc.-Water Division is exempt from Item 3 of the Commission's New Financing Rule for the debt authorized herein.
5. Little Bear Water Company, Inc.-Water Division shall maintain records to (i) identify the specific long-term debt issued pursuant to this Resolution, and (ii) demonstrate that the proceeds from such debt have been used only for the purposes authorized by this Resolution.
6. Little Bear Water Company, Inc.-Water Division shall file with the Division of Water and Audits' Utility Audit, Finance and Compliance Branch the reports required by General Order 24-C. When the full amount of the debt has been received and reported, and the system improvements completed and all the capital expenditures reported, the General Order 24-C reporting requirement shall terminate.
7. The authority granted by this Resolution shall become effective when Little Bear Water Company-Water Division pays \$900 as required by Public Utilities Code § 1904(b). Little Bear Water Company, Inc.-Water Division must issue the check payable to the California Public Utilities Commission and remit the payment to the Commission's Fiscal Office.

8. This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 9, 2013. The following Commissioners approved it.

PAUL CLANON
Executive Director